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SUBJECT: AFGHAN AIRLINE IN DEFAULT WITH BOEING

Ref: 2006 Kabul 4890

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1. (SBU) SUMMARY: Boeing has asked for assistance with a \$1.8 million default by Ariana, Afghanistan's state airline, for lease payments on two Boeing 757s. Subsequent meetings with senior GoA and Ariana officials have revealed that the airline has no money to pay, but the GoA is putting together an immediate \$2 million bail-out for the airline to pay Boeing. This transfer could solve the short-term problem, but it is unlikely to solve Ariana's more fundamental problems. Boeing is also seeking new assurances that Ariana can handle its purchase of four new 737 aircraft in 2009/10. It appears that the GoA understands it cannot simply let the Boeing deal lapse into default. END SUMMARY.

2. (SBU) Boeing recently asked for Embassy assistance in collecting \$1.8 million in past-due lease payments from the state-owned Ariana Afghan Airlines for two B-757 aircraft. Boeing issued letters of default on the aircraft on March 6 and is concerned that it may have to ground the aircraft if Ariana does not pay by the end of March. EconCouns has met over the past several days with the Minister of Finance, the Deputy Minister of Transportation and Civil Aviation (the Minister was attending ICAO meeting in Montreal), and the President of Ariana to learn the reasons for Ariana's failure to pay and to stress the seriousness of the situation.

3. (SBU) At these meetings, we have learned that Ariana currently does not have the means to pay this or a number of other debts. Altogether the company has some \$14 million in immediate obligations (this sum includes not only the Boeing lease payments but over \$3 million in operations charges to Eagle Aviation, which is operating the leased aircraft, and nearly \$7 million in fuel bills.) Ariana has asked the GoA for help, and Deputy Minister of Transportation and Civil Aviation Raz Mohammad Alami has raised the issue at recent Cabinet and Economic sub-cabinet meetings. As a result of this request, a senior GoA team headed by Minister of Economy Mohammad Jalil Shams examined Ariana's books and proposed that the Cabinet consider a bailout. Ariana and MoTCA hope for action on this proposal in time to forestall grounding of the aircraft. Minister of Finance Ahadi stated that the Cabinet authorized \$2 million for the bailout while investigating options for either putting Ariana on a better financial footing or liquidating it.

¶4. (SBU) The IMF has expressed its approval of the \$2 million bailout, though its support of further transfers to Ariana seems unlikely. In January, the IMF and GoA agreed to some flexibility in the 1386 budget for unexpected security costs, but only if donors covered them. Since the \$2 million will be pulled from the Afghanistan Reconstruction Trust Fund, the Minister of Finance will also need to consult with donors before releasing the money to Ariana.

¶5. (SBU) The lease deal has been intended as a temporary capacity solution until Ariana can take delivery of four new B-737 aircraft in 2009-10. Defaulting on the lease agreement would cause Ariana to lose these B-737 production slots. It looks increasingly doubtful that Ariana, in its current state, will be able to pay for these aircraft even if it can avoid losing the slots. In any case, Boeing has demanded that Ariana provide "reasonable assurances" of the financial, organizational, and regulatory capacity to pay for and operate the 737s safely as a condition to retain the slots.

¶6. (SBU) While the \$2 million transfer from the state treasury may allow Ariana to take care of the immediate crisis with Boeing, it will still have significant other overdue debts. This situation did not develop over night, and some drastic and fundamental changes will be needed to fix it. According to its own accounting records, the airline lost around \$20 million against \$88 million in revenue in 1384 (March 2005 - March 2006) and had posted a net loss for two of the first three quarters of 1385. The president of Ariana, Abdul Ahad Mansoori, indicated to us that the company had not observed proper accounting or other business practices until his tenure, which began in mid-2006. As examples, Mansoori told us of as much as \$37 million in longstanding arrears owed to Ariana by the GoA (mostly pre-reconstruction debts), a neglected service contract with

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a British firm for parking and maintaining the two 757s, and out-of-control consulting contracts. He told us it was uncertain whether Ariana can recover from decades of mismanagement and that support for Ariana within the Cabinet was shaky at best. (From some quarters within the GoA and Ariana, the perspective on the Boeing deal is negative; it is said that Ariana has spent \$7 million to lease aircraft that it has been unable to use for a year.) We have heard both from Ariana and from other sources that there is some private-sector interest in acquiring Ariana, but it is not clear at this point how serious and how well qualified that interest is.

¶7. (SBU) COMMENT: Whatever the longer-term prospects for Ariana, it appears that the GoA has heard our message that it must maintain its good name by not allowing the Boeing deal to lapse into default. The short-term bail-out seems almost certain, though by itself it would solve only the immediate problem. Boeing appears to be asking more existential questions of Ariana and the GoA in order to ascertain whether the relationship has a viable future. We view these questions as appropriate, given Ariana's problems and the very limited capacity of the GoA to correct them. We are heartened to see that the GoA is asking the same questions as well. In any case, Embassy will continue to work with Boeing and the GoA to ensure that the deal is not allowed simply to collapse. End comment.

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